

Message Text

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ACTION EA-09

INFO OCT-01 EUR-12 ISO-00 SP-02 USIA-15 AID-05 EB-07

NSC-05 CIEP-02 TRSE-00 SS-15 STR-04 OMB-01 CEA-01

CIAE-00 COME-00 FRB-01 INR-07 NSAE-00 XMB-04 OPIC-06

LAB-04 SIL-01 DODE-00 PA-02 PRS-01 AGR-10 /115 W

----- 124394

R 040600Z MAR 76 CORRECTED COP FOR MCN

FM AMEMBASSY TOKYO

TO SECSTATE WASHDC 7433

INFO AMEMBASSY PARIS

USMISSION EC BRUSSELS

UNCLAS TOKYO 3265

PASS TREASURY AND EXIMBANK

E.O. 11652:X N/A

TAGS: EFIN, EXIM, JA

SUBJECT: EXPORT CREDIT UNDERSTANDING

1. TODAY'S JAPANESE PRESS (NIHON KEIZAI) REPORTS NEW AGREEMENT ON EXPORT CREDIT WILL BE REACHED THIS MONTH AMONG MAJOR ADVANCED NATIONS, BOTH MOF AND MITI OFFICIALS SAID TO PRESS THEY HAVE RECEIVED INFORMATION FROM ABROAD THAT ADVANCED NATIONS HAVE REACHED AN AGREEMENT IN PRINCIPLE ON NEW TRADE CREDIT TERMS.

2. ACCORDING TO NEWS STORY NEW AGREEMENT WILL INCLUDE THE FOLLOWING TERMS: (1) MINIMUM INTEREST RATE WITH DEFERRED PAYMENT PERIOD OF LESS THAN FIVE YEARS, 7.75 PERCENT PER ANNUM TO ADVANCED NATIONS (PER CAPITA INCOME OF \$3,000 AND MORE), 7.25 PERCENT TO DEVELOPING NATIONS (PER CAPITA INCOME OF LESS THAN \$1,000), (2) MINIMUM INTEREST RATE WITH DEFERRED PAYMENT PERIOD OF FIVE YEARS AND MORE, 8 PERCENT TO ADVANCED NATIONS, AND 7.5 PERCENT TO DEVELOPING NATIONS. GOJ OFFICIALS REPORTEDLY SAID ADVANCED NATIONS WILL AVOID A "TRADE WAR" BY REACHING AGREEMENT ON THE NEW TRADE CREDIT TERMS. GOJ OFFICIALS ALSO ADDED UNCLASSIFIED

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THAT THOUGH ADVANCED NATIONS AGREED ON NEW TRADE CREDIT TERMS

IN PRINCIPLE, SOME DETAILS REMAIN TO BE RESOLVED IN FUTURE DISCUSSIONS. GOJ OFFICIALS SAID MINIMUM INTEREST RATES WITH DEFERRED PAYMENT PERIOD OF FIVE YEARS AND MORE WILL BE VARIED FROM 7.5 PERCENT PER ANNUM TO 7.75 PERCENT DEPENDING ON THE PER CAPITA INCOME LEVEL OF THE DEVELOPING NATIONS. SOME DEVELOPING NATIONS HAVE COMPLAINED THAT ADVANCED NATIONS HAVE TRIED TO ESTABLISH A CARTEL AMONG THEMSELVES TO IMPOSE HIGH INTEREST RATES ON THEM. MOF OFFICIALS ARE OPTIMISTIC ABOUT MEETING THAT CRITICISM BECAUSE THE NEW AGREEMENT ALLOWS PREFERENTIAL TREATMENT TO DEVELOPING NATIONS (THAT IS, LOWER MINIMUM INTEREST RATES). THIS IS A MAJOR DIFFERENCE FROM WASHINGTON AGREEMENT WHICH HAD THE SAME MINIMUM INTEREST RATE IRRESPECTIVE OF THE LEVEL OF INCOME OF THE BORROWING COUNTRY.

3. EMBASSY WOULD APPRECIATE UP-TO-DATE REPORT ON STATUS OF THESE NEGOTIATIONS AND WASHINGTON VIEWS REGARDING GOJ SATISFACTION OR DISSATISFACTION WITH TERMS AND DETAILS OF THE PROSPECTIVE AGREEMENT.
SHOESMITH

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Message Attributes

Automatic Decaptioning: X
Capture Date: 01 JAN 1994
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: PRESS COMMENTS, TRADE AGREEMENTS, EXPORT CREDIT GUARANTEES
Control Number: n/a
Copy: SINGLE
Draft Date: 04 MAR 1976
Decaption Date: 01 JAN 1960
Decaption Note:
Disposition Action: n/a
Disposition Approved on Date:
Disposition Authority: n/a
Disposition Case Number: n/a
Disposition Comment:
Disposition Date: 01 JAN 1960
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
Document Number: 1976TOKYO03265
Document Source: CORE
Document Unique ID: 00
Drafter: n/a
Enclosure: n/a
Executive Order: N/A
Errors: N/A
Film Number: D760082-1237
From: TOKYO
Handling Restrictions: n/a
Image Path:
ISecure: 1
Legacy Key: link1976/newtext/t19760393/aaaaddzf.tel
Line Count: 80
Locator: TEXT ON-LINE, ON MICROFILM
Office: ACTION EA
Original Classification: UNCLASSIFIED
Original Handling Restrictions: n/a
Original Previous Classification: n/a
Original Previous Handling Restrictions: n/a
Page Count: 2
Previous Channel Indicators: n/a
Previous Classification: n/a
Previous Handling Restrictions: n/a
Reference: n/a
Review Action: RELEASED, APPROVED
Review Authority: ShawDG
Review Comment: n/a
Review Content Flags:
Review Date: 08 JUL 2004
Review Event:
Review Exemptions: n/a
Review History: RELEASED <08 JUL 2004 by fisherem>; APPROVED <10 DEC 2004 by ShawDG>
Review Markings:

Margaret P. Grafeld
Declassified/Released
US Department of State
EO Systematic Review
04 MAY 2006

Review Media Identifier:
Review Referrals: n/a
Review Release Date: n/a
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
Secure: OPEN
Status: NATIVE
Subject: EXPORT CREDIT UNDERSTANDING
TAGS: EFIN, JA, XMB
To: STATE
Type: TE
Markings: Margaret P. Grafeld Declassified/Released US Department of State EO Systematic Review 04 MAY 2006